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SUBJECT: AUSTRIA: IMPACT OF RISING FOOD/AGRICULTURAL COMMODITY PRICES

REFS: A) STATE 39410 B) VIENNA 0513

Summary

¶11. Austrian consumers have been hard hit by surging food prices, which rose by 8.4% in March 2008 over the previous year. For 2008, food prices are predicted to increase by 7%. Economists do not expect significant changes in the structure of Austria's agricultural sector, nor in the demand and supply for agricultural commodities. In response to higher inflation rates, the GoA has announced fiscal measures to assist low income groups. The GoA has no plans to reconsider its goal to increase the biofuel share in gasoline and diesel to 10% by 2010. End Summary.

The Current Situation

¶12. In 2007, Austria's CPI increase was 2.2%, mainly driven by housing and energy costs, closely followed by food price increases of 4.4%. The March 2008 CPI was up 3.5% from March 2007, with food prices up 8.4%. Consumers paid 39% more for pasta than a year ago, 11% more for bread and grain products, 16% more for milk products and eggs, 14% more for cooking fats and oils, 10% more for fruits, 5% more for meat and meat products, and 5% more for vegetables. Economists project an annual average CPI increase of 2.6-2.9% for 2008, with food prices expected to rise 7% (see also ref B).

¶13. Producer prices for staple crops increased dramatically in February 2008 (year-on-year comparison), e.g., 70% for soft wheat, 115% for rye, 63% for corn, 87% for oilseed rape, and 133% for sunflower seed. There was a concurrent, significant increase of input prices for agricultural production. Soybean meal and corn feed rose by 52%, fertilizers by 11% and diesel for agricultural use by 26%.

¶14. Aside from international factors, there are several domestic trends that are contributing to rising food prices: a new tendency to pass on higher raw material costs directly to consumers; a highly concentrated food retail sector and corresponding lack of competition (the top three supermarket chains hold a market share of 76%); and a weak and inactive competition authority.

Impact and Government Reaction

¶15. Since production prices are rising parallel to consumer prices, the Austrian Institute for Economic Research (WIFO) does not expect significant changes in Austria's agricultural structure for the moment. Nor does the WIFO believe agricultural commodity demand or supply in Austria will change noticeably in the near to medium term. Unlike Eastern Europe, Australia and Spain (which had poor yields in 2007 due to droughts), Austria's agricultural production in 2007 remained on par with its long-term average.

¶6. Demand for biofuel has increased. Preliminary figures estimate consumption of biodiesel in 2007 at 332,000 metric tons (MT) (2006: 321,000 MT) and of bio-ethanol at 23,000 MT (2006: none). The acreage equivalent for Austrian biodiesel consumption for 2007 amounted to 215,000 hectares or 645,000 MT of oilseed rape equivalent. The acreage equivalent for bio-ethanol consumption in 2007 was 8,300 hectares or 77,000 MT of corn equivalent. In October 2007 the Austrian regulation for "Bio-Ethanol Admixture" (Federal Law Gazette number II/378 of November 22, 2005 and II/260 of October 2, 2007) came into force. According to the requirements of the regulation, the Austrian bio-ethanol demand in 2008 should amount to 90,000 MT. The GoA continues to pursue a goal of increasing the share of biofuels in gasoline and diesel from 5% to 10% by 2010, compared to the EU goal of 10% by 2020.

¶7. The GoA has announced a series of measures to combat rising inflation, to which increasing food prices are contributing. Unemployment insurance contributions for low income groups (monthly incomes of less than Euro 1,350) will be lowered or cut in July 2008. The annual pension increase will be moved forward by two months to November 1, 2008. The GoA has instituted a change in the calculation method for its CPI-index based annual rent increases, which will result in lower increases. The GoA will also begin to officially monitor food prices in May 2008. The objective is not to regulate prices, but to raise public price awareness and detect price collusion, and other competitive restrictions, which the competition authority could better pursue.

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